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Welcome to hellish new realm of the alternative minimum tax

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The alternative minimum tax, which causes people to pay a much higher rate of taxes, is expected to hit 20 million taxpayers this year — about 15 percent of filers.

A lot of Northeast Ohioans who owe AMT nowadays "are just normal people" who aren't particularly wealthy, said Mark Mussig, a tax partner with SSKG Financial Services in Solon and Akron. "It's the state and local income taxes, along with their property taxes, that cause them to be in the AMT, more so than anything else."

Here's what you need to know.

What it is

The AMT was created in 1969 to wipe out loopholes for rich folks who were playing games so that they paid little or no tax. The thresholds of who is categorized as rich haven't been adjusted for inflation. So as people's incomes have risen — because of inflation — the IRS income charts show

they're fat cats.

The AMT rules prohibit some middle-income and upper-income people from taking most mainstream deductions and exemptions, such as the standard deduction, exemptions for themselves, their spouse and children or deductions for taxes paid. When these are wiped out, people must pay higher taxes. Adding insult to injury: While some items might be taxed at a 15 percent rate on the normal return, they're taxed at 26 percent to 28 percent under AMT.

Who gets hit

The higher your income, the more you're at risk.

For tax year 2005, it's estimated that 65 percent of married couples nationwide with adjusted Gross Incomes of \$75,000 to \$100,000 and with two or more children will be hit with a higher AMT-imposed tax bill.

By 2010, it's expected to reach down to strike about one in four households with all sizes of incomes.

Most vulnerable: People who

AMT's sting

People who must pay the alternative minimum tax will owe more than they do under normal tax calculations. Here's how much more they'll pay, based on their adjusted gross income.

AGI (in thousands)	Extra tax
\$30-\$50	\$638
\$50-\$75	\$1,154
\$75-\$100	\$1,808
\$100-\$200	\$2,192
\$200-\$500	\$4,599
\$500-\$1,000	\$13,740

SOURCE: Tax Policy Center (joint venture of Brookings Institution and Urban Institute)

have a lot of deductions in proportion to their income. That can mean you, if you have:

- Mortgage interest on money that wasn't used to buy or improve your home (i.e. used to consolidate debt, buy a car or go on vacation).
- High state, local or property taxes. (The impact of AMT "is absolutely worse in Ohio" because

of this, said CPA Cynthia Hatfield of J.M. Green CPA Group in Beachwood. Ohio's income tax is higher than many states' and many local cities have income and property taxes that are much higher than the national average.)

- Unreimbursed employee business expenses.
- Exercised incentive stock options.
- Miscellaneous itemized deductions.
- Some tax-free municipal bonds.

How AMT works

Under traditional IRS requirements, you begin with your gross income and deduct things like state and local taxes paid and exemptions for children. At some point, you get your taxable income. Under AMT, you begin with your gross income but many of the normal deductions and exemptions aren't allowed, so your taxable income is a lot higher.

The AMT replaced many common deductions and exemptions with a flat exemption. For tax

year 2005, the AMT exemption is \$58,000 for a couple filing jointly; \$40,250 for single or head of household; and \$29,000 for married filing separate.

The exemption starts phasing out for couples with alternative minimum taxable incomes (not adjusted gross incomes) of \$150,000 and for singles with alternative taxable incomes of \$112,500.

Are you at risk under AMT?

You can't tell for sure until you or your accountant run the numbers.

Everyone who files a tax return is required by law to figure out whether AMT is owed. Line 44 of the 1040 refers you to a worksheet. If the taxable income on the 12-line worksheet is higher than the taxable income on the 1040, then you must fill out Form 6251, the AMT form.

Online: This year, the IRS offers an online calculator, the "AMT Assistant," to help figure out whether you might owe AMT. The IRS says most people can get an answer in five to 10 minutes.

Go to: apps.irs.gov/app/amt
Can you avoid it?

Not likely. CPAs say AMT is difficult if not impossible to plan for because you can't do anything about the two biggest triggers: the number of kids you have and the amount you pay in local and state taxes.

Will this get any better?

Under current law, the AMT exemptions for tax year 2006 will revert to the 2000 levels, which are \$45,000 for joint, \$33,750 for single or head of household and \$22,500 for married filing separately. If not changed, this will wallop a lot more taxpayers — an additional estimated 9 million.

While there's considerable pressure to reform the law and scale back the widespread pain of AMT, changes would cost the federal government tens of billions in tax revenue that would have to come from someplace else.

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